

**REPORT OF THE AUDIT OF THE
KNOX COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2010**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE KNOX COUNTY FISCAL COURT

June 30, 2010

The Auditor of Public Accounts has completed the audit of the Knox County Fiscal Court for fiscal year ended June 30, 2010. The county has not recorded all general infrastructure assets in governmental activities, and accordingly, has not recorded depreciation expense on those assets. Therefore, we have issued a qualified opinion on the governmental activities, and an unqualified opinion on the business-type activities, each major fund, and aggregate remaining fund information.

Financial Condition:

The fiscal court had total net assets of \$2,430,540 as of June 30, 2010. The fiscal court had unrestricted net assets of \$4,839,347 in its governmental activities as of June 30, 2010, with total net assets of \$2,355,496. In its business-type activities, total net cash and cash equivalents were \$75,044 with total net assets of \$75,044. The fiscal court had total debt principal as of June 30, 2010 of \$18,509,221 with \$298,054 due within the next year.

Report Comments:

- 2010-01 Credit Card Expenditures Should Be Appropriately Validated And Properly Documented
- 2010-02 The Fiscal Court Should Maintain Proper Records For The Public Properties Corporation Bond Fund And The Hospital General Obligation Refunding Bond Fund
- 2010-03 The Fiscal Court Lacks Adequate Segregation Of Duties Over Payroll Processes
- 2010-04 The Knox County Jail Lacks Adequate Segregation Of Duties Over Accounting Functions
- 2010-05 The Fiscal Court Should Have Re-Bid The Knox County Corbin Annex Project In Order For All Qualified Contractors To Have An Equal Chance Of Procuring The Contract
- 2010-06 The Fiscal Court Should Adhere To Bids Awarded And Properly Advertise For Bids On All Projects Over \$20,000
- 2010-07 The Fiscal Court Should Either Deal Directly With The State Price Contract Vendor Or Advertise For Bids On Purchases That Exceed \$20,000
- 2010-08 The Fiscal Court Should Properly Advertise For Bids On All Expenditures Over \$20,000
- 2010-09 The County Judge/Executive Should Obtain Fiscal Court Approval Before Approving Transactions
- 2010-10 The Fiscal Court Should Maintain Complete And Accurate Capital Asset Schedules To Comply With GASB 34 Requirements And Inventory Capital Assets Periodically
- 2010-11 The County Did Not Follow Proper Purchase And Procurement Procedures
- 2010-12 The County Should Comply And Ensure That The Same Level Of Health Insurance Benefits Are Provided To All County Employees As Stated In Kentucky Attorney General Opinion (OAG) 94-15
- 2010-13 The Fiscal Court Should Comply With Unemployment Laws And Regulations
- 2010-14 The Fiscal Court Should Ensure Compliance With Emergency Management Program
- 2010-15 The Jailer Should Maintain Accurate Accounting Records And Prepare An Annual Report For The Jail Canteen Account

Deposits:

The fiscal court's deposits were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$478,638 as of August 31, 2009

Fiscal Court's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Fiscal Court's deposits in accordance with the security agreement.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable J.M. Hall, Knox County Judge/Executive

Members of the Knox County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Knox County, Kentucky, as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Knox County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Knox County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Knox County, Kentucky has not included assets of the Knox County Hospital owned by the county in governmental activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require all assets be capitalized and depreciated, which would increase the assets, net assets, and expenses of the governmental activities. The amount by which this departure affects the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

In our opinion, except for the effects of not including the assets referred to in the previous paragraph in governmental activities, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of Knox County, Kentucky, as of June 30, 2010, and the respective changes in financial position, thereof for the year then ended in conformity with the basis of accounting described in Note 1.



To the People of Kentucky
 Honorable Steven L. Beshear, Governor
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Also in our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of Knox County, Kentucky, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Knox County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated April 12, 2011 on our consideration of Knox County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations included herein, which discusses the following report comments:

- 2010-01 Credit Card Expenditures Should Be Appropriately Validated And Properly Documented
- 2010-02 The Fiscal Court Should Maintain Proper Records For The Public Properties Corporation Bond Fund And The Hospital General Obligation Refunding Bond Fund
- 2010-03 The Fiscal Court Lacks Adequate Segregation Of Duties Over Payroll Processes
- 2010-04 The Knox County Jail Lacks Adequate Segregation Of Duties Over Accounting Functions
- 2010-05 The Fiscal Court Should Have Re-Bid The Knox County Corbin Annex Project In Order For All Qualified Contractors To Have An Equal Chance Of Procuring The Contract
- 2010-06 The Fiscal Court Should Adhere To Bids Awarded And Properly Advertise For Bids On All Projects Over \$20,000
- 2010-07 The Fiscal Court Should Either Deal Directly With The State Price Contract Vendor Or Advertise For Bids On Purchases That Exceed \$20,000
- 2010-08 The Fiscal Court Should Properly Advertise For Bids On All Expenditures Over \$20,000

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- 2010-09 The County Judge/Executive Should Obtain Fiscal Court Approval Before Approving Transactions
- 2010-10 The Fiscal Court Should Maintain Complete And Accurate Capital Asset Schedules To Comply With GASB 34 Requirements And Inventory Capital Assets Periodically
- 2010-11 The County Did Not Follow Proper Purchase And Procurement Procedures
- 2010-12 The County Should Comply And Ensure That The Same Level Of Health Insurance Benefits Are Provided To All County Employees As Stated In Kentucky Attorney General Opinion (OAG) 94-15
- 2010-13 The Fiscal Court Should Comply With Unemployment Laws And Regulations
- 2010-14 The Fiscal Court Should Ensure Compliance With Emergency Management Program
- 2010-15 The Jailer Should Maintain Accurate Accounting Records And Prepare An Annual Report For The Jail Canteen Account

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

April 12, 2011

KNOX COUNTY OFFICIALS

For The Year Ended June 30, 2010

Fiscal Court Members:

J.M. Hall	County Judge/Executive
Carson I. Gilbert	Magistrate
Terry Brown	Magistrate
Guillio J. Cima	Magistrate
Doyle Gibson	Magistrate
Jerry Hamilton	Magistrate

Other Elected Officials:

Charley G. Dixon	County Attorney
Larry D. Hammons	Jailer
Mike Corey	County Clerk
Greg Helton	Circuit Court Clerk
John Pickard	Sheriff
Bill Oxendine	Property Valuation Administrator
Mike Blevins	Coroner

Appointed Personnel:

Jim Tye	Deputy County Judge/Executive
Darren West	County Treasurer
Wayne Willis	Occupational Tax Collector
Tammy Peters	Finance Officer

KNOX COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

KNOX COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 5,968,861	\$ 75,044	\$ 6,043,905
Total Current Assets	<u>5,968,861</u>	<u>75,044</u>	<u>6,043,905</u>
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Construction In Progress	487,332		487,332
Land and Land Improvements	1,459,145		1,459,145
Buildings	5,284,457		5,284,457
Other Equipment	908,707		908,707
Vehicles and Equipment	516,758		516,758
Infrastructure	6,239,457		6,239,457
Total Noncurrent Assets	<u>14,895,856</u>		<u>14,895,856</u>
Total Assets	<u>20,864,717</u>	<u>75,044</u>	<u>20,939,761</u>
LIABILITIES			
Current Liabilities:			
Bonds Payable	270,000		270,000
Financing Obligations Payable	28,054		28,054
Total Current Liabilities	<u>298,054</u>		<u>298,054</u>
Noncurrent Liabilities:			
Bonds Payable	17,865,000		17,865,000
Financing Obligations Payable	346,167		346,167
Total Noncurrent Liabilities	<u>18,211,167</u>		<u>18,211,167</u>
Total Liabilities	<u>18,509,221</u>		<u>18,509,221</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	(3,613,365)		(3,613,365)
Restricted For:			
Debt Service	1,129,514		1,129,514
Fiscal Court		1,005	1,005
Sales Tax		562	562
Unrestricted	<u>4,839,347</u>	<u>73,477</u>	<u>4,912,824</u>
Total Net Assets	<u>\$ 2,355,496</u>	<u>\$ 75,044</u>	<u>\$ 2,430,540</u>

The accompanying notes are an integral part of the financial statements.

KNOX COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2010

KNOX COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

Functions/Programs Reporting Entity	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 3,221,070	\$ 136,204	\$ 1,162,160	\$ 189,001
Protection to Persons and Property	1,710,520	6,846	308,237	
General Health and Sanitation	145,007	1,439,728	74,036	
Social Services	91,103		98,236	
Recreation and Culture	28,579		10,000	
Roads	1,952,129		334,977	1,142,579
Debt Service	1,134,819			
Capital Projects	673,568			
Total Governmental Activities	8,956,795	1,582,778	1,987,646	1,331,580
Business-type Activities:				
Jail Canteen	58,444	36,469		
Total Business-type Activities	58,444	36,469		
Total Primary Government	\$ 9,015,239	\$ 1,619,247	\$ 1,987,646	\$ 1,331,580

General Revenues:

Taxes:

Real Property Taxes
Personal Property Taxes
Motor Vehicle Taxes
Delinquent Taxes
Franchise Taxes
Occupational Taxes
Deed Transfer Taxes
Other Taxes

Excess Fees

Miscellaneous Revenues

Accrued Interest Received

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

KNOX COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2010
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (1,733,705)	\$	\$ (1,733,705)
(1,395,437)		(1,395,437)
1,368,757		1,368,757
7,133		7,133
(18,579)		(18,579)
(474,573)		(474,573)
(1,134,819)		(1,134,819)
(673,568)		(673,568)
(4,054,791)		(4,054,791)
	(21,975)	(21,975)
	(21,975)	(21,975)
(4,054,791)	(21,975)	(4,076,766)
954,406		954,406
31,825		31,825
189,227		189,227
118,677		118,677
247,152		247,152
2,729,808		2,729,808
22,757		22,757
388,931		388,931
499,965		499,965
354,507	53,317	407,824
140,421		140,421
5,677,676	53,317	5,730,993
1,622,885	31,342	1,654,227
732,611	43,702	776,313
\$ 2,355,496	\$ 75,044	\$ 2,430,540

The accompanying notes are an integral part of the financial statements.

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KNOX COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2010

KNOX COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2010

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund	Occupational License Fund
ASSETS					
Cash and Cash Equivalents	\$ 2,879,194	\$ 318,720	\$ 85,330	\$ 1,012,978	\$ 260,217
Total Assets	<u>2,879,194</u>	<u>318,720</u>	<u>85,330</u>	<u>1,012,978</u>	<u>260,217</u>
FUND BALANCES					
Reserved for:					
Encumbrances	2,088	29,299	11,873		
Debt Service					
Unreserved:					
General Fund	2,877,106				
Special Revenue Funds		289,421	73,457	1,012,978	260,217
Total Fund Balances	<u>\$ 2,879,194</u>	<u>\$ 318,720</u>	<u>\$ 85,330</u>	<u>\$ 1,012,978</u>	<u>\$ 260,217</u>

The accompanying notes are an integral part of the financial statements.

KNOX COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2010
(Continued)

Knox County			
Hospital			
General	Public		
Obligation	Properties	Non-	Total
Refunding	Corporation	Major	Governmental
Bond Fund	Bond Fund	Funds	Funds
<u>\$ 1,122,424</u>	<u>\$ 7,090</u>	<u>\$ 282,908</u>	<u>\$ 5,968,861</u>
<u>1,122,424</u>	<u>7,090</u>	<u>282,908</u>	<u>5,968,861</u>
		530	43,790
1,122,424	7,090		1,129,514
			2,877,106
		<u>282,378</u>	<u>1,918,451</u>
<u>\$ 1,122,424</u>	<u>\$ 7,090</u>	<u>\$ 282,908</u>	<u>\$ 5,968,861</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 5,968,861
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	20,988,430
Accumulated Depreciation	(6,092,574)
Long-term Debt Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Funds.	
General Obligation Bonds	(16,500,000)
Revenue Bonds	(1,635,000)
Financing Obligations	<u>(374,221)</u>
Net Assets Of Governmental Activities	<u>\$ 2,355,496</u>

The accompanying notes are an integral part of the financial statements.

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KNOX COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

KNOX COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
REVENUES				
Taxes	\$ 1,624,129	\$	\$	\$
Excess Fees	499,965			
Licenses and Permits	136,203			
Intergovernmental	589,223	1,577,556	194,172	881,955
Charges for Services	677			
Miscellaneous	32,223	178,179	38,435	37
Interest	66,684	19,130	2,572	28,133
Total Revenues	<u>2,949,104</u>	<u>1,774,865</u>	<u>235,179</u>	<u>910,125</u>
EXPENDITURES				
Current:				
General Government	1,630,952			
Protection to Persons and Property	26,244		1,350,386	
General Health and Sanitation	147,810			3,250
Social Services	1,400			
Recreation and Culture	26,207			
Roads		2,756,269		
Debt Service		28,434	37,312	161,672
Capital Projects				673,568
Administration	477,764	258,096	222,609	
Total Expenditures	<u>2,310,377</u>	<u>3,042,799</u>	<u>1,610,307</u>	<u>838,490</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>638,727</u>	<u>(1,267,934)</u>	<u>(1,375,128)</u>	<u>71,635</u>
Other Financing Sources (Uses)				
Bond Proceeds				
Discount on Bond				
Transfers From Other Funds	1,761,894	800,000	1,185,000	
Transfers To Other Funds	(1,794,950)			(250,000)
Total Other Financing Sources (Uses)	<u>(33,056)</u>	<u>800,000</u>	<u>1,185,000</u>	<u>(250,000)</u>
Net Change in Fund Balances	605,671	(467,934)	(190,128)	(178,365)
Fund Balances - Beginning (Restated)	2,273,523	786,654	275,458	1,191,343
Fund Balances - Ending	<u>\$ 2,879,194</u>	<u>\$ 318,720</u>	<u>\$ 85,330</u>	<u>\$ 1,012,978</u>

The accompanying notes are an integral part of the financial statements.

KNOX COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2010
(Continued)

Occupational License Fund	Knox County Hospital General Obligation Refunding Bond Fund	Knox County Public Properties Corporation Bond Fund	Non- Major Funds	Total Governmental Funds
\$ 2,616,527	\$	\$	\$ 385,405	\$ 4,626,061
				499,965
				136,203
	1,439,728	138,205	100,858	4,921,697
				677
			5,782	254,656
13,260	14	6,444	4,184	140,421
<u>2,629,787</u>	<u>1,439,742</u>	<u>144,649</u>	<u>496,229</u>	<u>10,579,680</u>
822,387			93,191	2,546,530
			278,139	1,654,769
				151,060
			89,703	91,103
				26,207
				2,756,269
	1,157,449	2,020,674	60,030	3,465,571
				673,568
		59,023	55,257	1,072,749
<u>822,387</u>	<u>1,157,449</u>	<u>2,079,697</u>	<u>576,320</u>	<u>12,437,826</u>
<u>1,807,400</u>	<u>282,293</u>	<u>(1,935,048)</u>	<u>(80,091)</u>	<u>(1,858,146)</u>
		1,635,000		1,635,000
		(19,064)		(19,064)
			79,842	3,826,736
(1,778,983)		(1,819)	(984)	(3,826,736)
<u>(1,778,983)</u>		<u>1,614,117</u>	<u>78,858</u>	<u>1,615,936</u>
28,417	282,293	(320,931)	(1,233)	(242,210)
231,800	840,131	328,021	284,141	6,211,071
<u>\$ 260,217</u>	<u>\$ 1,122,424</u>	<u>\$ 7,090</u>	<u>\$ 282,908</u>	<u>\$ 5,968,861</u>

The accompanying notes are an integral part of the financial statements.

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**KNOX COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2010

KNOX COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

Net Change in Fund Balances - Total Governmental Funds	\$ (242,210)
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Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	1,891,654
Depreciation Expense	(574,601)
Assets disposed of, net book value	(166,774)

The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on long-term debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net assets.

Bond Proceeds	(1,635,000)
General Obligation Bond Principal Payments	260,000
Revenue Bond Principal Payments	1,890,000
Financing Obligation Principal Payments	<u>199,816</u>

Change in Net Assets of Governmental Activities	<u><u>\$ 1,622,885</u></u>
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KNOX COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2010

KNOX COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2010

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 75,044
Total Current Assets	<u>75,044</u>
Net Assets	
Restricted For:	
Fiscal Court	1,005
Sales Tax	562
Unrestricted	<u>73,477</u>
Total Net Assets	<u><u>\$ 75,044</u></u>

The accompanying notes are an integral part of the financial statements.

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KNOX COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

KNOX COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 36,469
Total Operating Revenues	<u>36,469</u>
Operating Expenses	
Cost of Sales	27,298
Educational and Recreational	531
Jail Maintenance and Supplies	29,246
Sales Tax	<u>1,369</u>
Total Operating Expenses	<u>58,444</u>
Operating Income (Loss)	<u>(21,975)</u>
Nonoperating Revenues (Expenses)	
Medical Fees Collected	1,109
Phone Card Sales	6,320
Received on Inmate accounts	51,766
Booking Fees Collected	58,574
Inmate Refunds	(58,028)
Payments to Fiscal Court	<u>(6,424)</u>
Total Nonoperating Revenues (Expenses)	<u>53,317</u>
Change In Net Assets	31,342
Total Net Assets - Beginning (Restated)	<u>43,702</u>
Total Net Assets - Ending	<u>\$ 75,044</u>

The accompanying notes are an integral part of the financial statements.

KNOX COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

KNOX COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Cash Receipts From Customers	\$ 36,469
Cash Payments To Vendors	(58,444)
Net Cash Provided (Used) By Operating Activities	(21,975)
Cash Flows From Noncapital Financing Activities	
Cash Receipts For Medical Fees	1,109
Cash Receipts For Phone Cards	6,320
Cash Receipts For Inmate Accounts	51,766
Cash Receipts For Booking Fees	58,574
Cash Payments For Inmate Refunds on Accounts	(58,028)
Cash Payments To Fiscal Court	(6,424)
Net Cash Provided By Noncapital Financing Activities	53,317
Net Increase (Decrease) in Cash and Cash Equivalents	31,342
Cash and Cash Equivalents - July 1, 2009 (Restated)	43,702
Cash and Cash Equivalents - June 30, 2010	\$ 75,044
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	\$ (21,975)
Net Cash Provided By Operating Activities	\$ (21,975)

The accompanying notes are an integral part of the financial statements.

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KNOX COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

KNOX COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

	<u>Agency Fund</u>
	<u>Jail Inmate Fund</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 6,401
Total Assets	<u>6,401</u>
Liabilities	
Amounts Held In Custody For Others	<u>6,401</u>
Total Liabilities	<u>6,401</u>
Total Net Assets	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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KNOX COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2010

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Knox County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. The County has no discretely presented component units.

Blended Component Units

The following legally separate organizations provide their services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. These organizations' balances and transactions are reported as though they are part of the county's primary government using the blending method.

KNOX COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Units (Continued)

Knox County Public Properties Corporation

The Knox County Fiscal Court appoints a voting majority of the Knox County Municipal Public Properties Corporation's (PPC) governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the PPC. Financial information for the PPC is blended within Knox County's financial statements. All activities of the PPC are accounted for within a governmental fund.

Knox County Hospital Corporation

The Knox County Fiscal Court appoints all members of the governing board of the Knox County Hospital Corporation. The fiscal court, through the Knox County Hospital Corporation, owns the building and assets of the hospital and incurs debt on its behalf. The corporation is presented as a debt service fund in the financial statements.

C. Knox County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Knox County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Knox County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

KNOX COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

KNOX COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Local Government Economic Assistance Fund - The primary purpose of this fund is to account for funds that must be spent for public safety, environmental protection, public transportation, health, recreation, and social services. The Department for Local Government requires the Fiscal Court to maintain these revenues and expenditures separately from the General Fund.

Occupational License Fund - The primary purpose of this fund is to account for receipts and disbursements related to the county's occupational tax collections. The Department for Local Government requires the Fiscal Court to maintain these revenues and expenditures separately from the General Fund.

Knox County General Obligation Refunding Bond Fund - The primary purpose of this fund is to account for debt service requirements of the obligation bonds of the Knox County Hospital. The bonds were issued to build the new hospital. The Department for Local Government does not require the fiscal court to report or budget these funds.

Knox County Public Properties Corporation Bond Fund – The primary purpose of this fund is to account for debt service requirements of general obligation bonds of the Knox County Judicial Center. The Department for Local Government does not require the fiscal court to report or budget these funds.

The primary government also has the following non-major funds: Emergency 911 Fund, Federal Programs Fund, Knox County Hospital Sinking Fund, SEKRB Park Fund, and County Attorney Drug Free Communities Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Occupational License Fund, Emergency 911 Fund, Federal Programs Fund, Knox County Hospital Sinking Fund, SEKRB Park Fund, and County Attorney Drug Free Communities Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Fund:

The Knox County Hospital General Obligation Refunding Bond Fund and the Knox County Public Properties Corporation Bond Fund are presented as debt service funds. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

KNOX COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds (Continued)

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Fiduciary Funds

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency fund is used to account for monies held by the county in the Utility Tax Fund for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

The primary government reports the following fiduciary fund:

Jail Inmate Fund - This fund accounts for funds received from jail inmates and remitted for jail canteen expenses, booking fees, or returned to jail inmates.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

KNOX COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-10
Infrastructure	\$ 20,000	10-50

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

KNOX COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Knox County Hospital General Obligation Refunding Bond Fund and the Knox County Public Properties Bond Fund. The Department for Local Government does not require these funds to be budgeted.

J. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the Knox County Utility Commission and the Knox County Ambulance Service are considered related organizations of Knox County Fiscal Court.

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240 (4). As of June 30, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of August 31, 2009, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the fiscal court's deposits in accordance with the security agreement as follows:

- Uncollateralized and Uninsured - \$478,638

KNOX COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

	Reporting Entity			
Primary Government:	Beginning			Ending
Governmental Activities:	Balance	Increases	Decreases	Balance
Capital Assets Not Being Depreciated:				
Land	\$ 1,459,145	\$	\$	\$ 1,459,145
Construction In Progress	26,591	460,741		487,332
Total Capital Assets Not Being Depreciated	1,485,736	460,741		1,946,477
Capital Assets, Being Depreciated:				
Buildings	9,132,482			9,132,482
Other Equipment	1,766,685	32,433		1,799,118
Vehicles and Equipment	1,146,442	135,062	(205,970)	1,075,534
Infrastructure	5,771,402	1,263,418		7,034,820
Total Capital Assets Being Depreciated	17,817,011	1,430,913	(205,970)	19,041,954
Less Accumulated Depreciation For:				
Buildings	(3,734,794)	(113,231)		(3,848,025)
Other Equipment	(780,694)	(109,716)		(890,410)
Vehicles and Equipment	(477,909)	(120,063)	39,196	(558,776)
Infrastructure	(563,772)	(231,591)		(795,363)
Total Accumulated Depreciation	(5,557,169)	(574,601)	39,196	(6,092,574)
Total Capital Assets, Being Depreciated, Net	12,259,842	856,312	(166,774)	12,949,380
Government Activities Capital Assets, Net	\$ 13,745,578	\$ 1,317,053	\$ (166,774)	\$ 14,895,857

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 125,517
Protection To Persons and Property	74,284
General Health and Sanitation	41,998
Recreation and Culture	2,372
Roads	330,430
Total Depreciation Expense - Governmental Activities	\$ 574,601

KNOX COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 4. Long-term Debt

A. First Mortgage Revenue Refunding Bonds, Series 2010

On February 17, 2010, the Knox County Public Properties Corporation issued \$1,635,000 of First Mortgage Refunding Revenue Bonds to pay off the 1997 Series Bonds which were originally issued for courthouse improvements and the construction of the courthouse annex. The 2010 series bonds were issued at various interest rates from 1% through 3.625%. The final maturity date of the 2010 series bonds is September 1, 2021. Total bonds outstanding as of June 30, 2010 totaled \$1,635,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2011		\$ 43,345
2012	130,000	41,072
2013	135,000	39,612
2014	135,000	37,790
2015	140,000	35,448
2016-2020	755,000	120,853
2021-2022	340,000	12,304
	<u>\$ 1,635,000</u>	<u>\$ 330,424</u>

B. Taxable General Obligation Refunding Bonds, Series 2006

The Fiscal Court issued obligations, dated December 28, 2006 and payable in 28 annual installments beginning December 1, 2009 and semi-annual interest payments on the first of June and December at an interest rate of 4.90%.

The Fiscal Court issued the Bonds, Series 2006 to defease and refund the General Obligation Bonds, Series 2004 due June 1, 2007 through 2014, General Obligation Bonds, Series 2004B due June 1, 2007 through 2015, a portion of the General Obligation Bonds, Series 2005 due June 1, 2007 through 2015; and to pay off a KADD lease. All of the instruments related to the Knox County Hospital. The refunding of the bonds has been accomplished pursuant to the Escrow Agreement by and between the County and Huntington Bank (successor to Central Bank & Trust Co.), the paying agent for the bonds (the "Escrow Agent") by depositing with the Escrow Agent a sum of initial cash and certain noncallable direct obligations of the United States Treasury (collectively, the "Government Obligations"). The funds needed to make the initial cash deposit and to purchase the Government Obligations have been provided from the proceeds of the Bonds, Series 2006.

The Government Obligations purchased and deposited with the Escrow Agent bear interest at such rates and will be scheduled to mature at such times and in such amounts so that, when paid according to their respective terms, sufficient moneys together with any amounts of cash then on deposit with the Escrow Agent, will be available to fully provide for: (i) the timely payment of interest on the bonds accruing from December 28, 2006 to and including the earliest date on which such bonds can be redeemed prior to maturity; and (ii) to redeem on December 1, 2014, December 1, 2015 and June 1, 2015, respectively, the bonds which as of that date have not been redeemed, retired or otherwise paid.

KNOX COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 4. Long-term Debt (Continued)

B. Taxable General Obligation Refunding Bonds, Series 2006 (Continued)

All moneys and Government Obligations on deposit with the Escrow Agent, including interest to be earned thereon, are pledged solely and irrevocably for the benefit of the holders of the Series 2004, Series 2004B and Series 2005 bonds. As of June 30, 2010, bonds outstanding were \$15,575,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2011	\$ 250,000	\$ 903,361
2012	265,000	888,555
2013	280,000	872,886
2014	300,000	856,136
2015	315,000	838,301
2016-2020	1,875,000	3,885,556
2021-2025	2,480,000	3,258,769
2026-2030	3,290,000	2,420,194
2031-2035	4,385,000	1,300,578
2036-2037	2,135,000	127,341
	<u>\$ 15,575,000</u>	<u>\$ 15,351,677</u>

C. General Obligation Refunding Bonds, Series 2005 Non-Refunded Portion

On December 1, 2005, the Knox County Fiscal Court issued \$4,250,000 of General Obligation Refunding Bonds for the Knox County Hospital. On December 28, 2006, the Fiscal Court issued General Obligation Refunding Bonds, Series 2006 which defeased the remainder of the outstanding Series 2005 bonds at that date with the exception of \$985,000. The non-refunded portion of the Series 2005 Bonds has interest rates from 2.80% through 4.50%. The final maturity date of the Series 2005 Bonds is December 1, 2035. Total bonds outstanding as of June 30, 2010 totaled \$925,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 20,000	\$ 39,385
2012	15,000	38,796
2013	20,000	38,177
2014	20,000	37,447
2015	20,000	36,697
2016-2020	120,000	170,715
2021-2025	175,000	139,387
2026-2030	205,000	98,156
2031-2035	270,000	44,775
2036	60,000	1,350
	<u>\$ 925,000</u>	<u>\$ 644,885</u>

KNOX COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 4. Long-term Debt (Continued)

D. Jail – Long Term Participation Agreement

The Kentucky Local Correctional Facilities Construction Authority (KLCFCA), an independent corporation agency and instrumentality of Kentucky, issued revenue bonds in the amount of \$276,310 on September 29, 2004 for the purpose of constructing a jail facility. On October 1, 2004, the fiscal court entered into a lease and participation agreement with KLCFCA for \$276,310 principal plus interest of 6.34% on the issue. The principal amount outstanding as of June 30, 2010 was \$159,221. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2011	\$ 28,054	\$ 9,205
2012	29,833	7,370
2013	31,724	5,419
2014	33,736	3,344
2015	35,874	1,137
	<u>\$ 159,221</u>	<u>\$ 26,475</u>

E. Kentucky Area Development District – Vehicles

On September 1, 2005, the Fiscal Court entered into a capital lease agreement with Kentucky Area Development District for the purpose of purchasing vehicles. The principal of the lease was \$495,000 with repayment to be made over an eleven year period. The county is to pay semi-annual installments due in January and July in accordance with a schedule to complete the contract. The lease was issued at various interest rates from 3.40% through 4.50%. The principal amount outstanding as of June 30, 2010 was \$215,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2011	\$	\$ 4,931
2012	60,000	8,588
2013	65,000	5,931
2014	30,000	3,875
2015	30,000	2,525
2016	30,000	925
	<u>\$ 215,000</u>	<u>\$ 26,775</u>

KNOX COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 4. Long-term Debt (Continued)

F. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 16,760,000	\$	\$ 260,000	\$16,500,000	\$ 270,000
Revenue Bonds	1,890,000	1,635,000	1,890,000	1,635,000	
Financing Obligations	<u>574,037</u>		<u>199,816</u>	<u>374,221</u>	<u>28,054</u>
Governmental Activities					
Long-term Liabilities	<u>\$ 19,224,037</u>	<u>\$ 1,635,000</u>	<u>\$ 2,349,816</u>	<u>\$18,509,221</u>	<u>\$ 298,054</u>

Note 5. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$27,603 in interest on financing obligations and \$1,052,252 in interest on bonds and notes.

Note 6. Commitments and Contingencies

On April 14, 2010, the Knox County Fiscal Court entered into a commercial promissory note with Commercial Bank for operating costs of the Knox County Hospital. The note is a revolving line of credit up to \$300,000 at an interest rate of 7% and was to mature on June 30, 2010. The note was renewed on June 30, 2010 and will mature on June 30, 2011. The hospital management team, Pacer Health Management Corporation of Kentucky signed as grantor of the note and is financially liable for the note.

Note 7. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 32.97 percent.

KNOX COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 7. Employee Retirement System (Continued)

The county's contribution for FY 2008 was \$256,018, FY 2009 was \$198,007, and FY 2010 was \$249,924.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 8. Deferred Compensation

The Knox County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 9. Insurance

For the fiscal year ended June 30, 2010, Knox County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

KNOX COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 10. Prior Period Adjustments

The prior year net asset balance for governmental activities, business-type activities, and fund cash balances have been restated as follows:

	Governmental Activities	Business-type Activities	General Fund	Jail Fund
Beginning balance	\$ (281,893)	\$ 34,593	\$ 2,273,176	\$ 283,199
Adjustments:				
Prior year voided checks	3,128	118	347	2,781
Assets previously omitted	750,746			
Accumulated depreciation	299,586			
Debt previously omitted	(28,434)			
Prior year liabilities recorded in error	(10,522)	(11,319)		(10,522)
Jail Operating Account		20,310		
Restated Beginning Balance	<u>\$ 732,611</u>	<u>\$ 43,702</u>	<u>\$ 2,273,523</u>	<u>\$ 275,458</u>

Note 11. Related Party Transaction

For the year ended June 30, 2010, the Knox County Fiscal Court paid a total of \$335,421 to McVey Land Development for various road maintenance supplies, labor, and equipment rental. The County Judge/Executive's uncle owns McVey Land Development. The County's code of ethics states "no county officer, county employee, or immediate family member of the officer or employee, shall have an interest in a business, or engage in any business transaction, or activity, which is in substantial conflict with the proper discharge of the public duties of the officer or employee." It further defines "immediate family member" as spouse, child, or person claimed as a dependent for tax purposes; therefore, the County Judge/Executive is not in violation of the County's code of ethics.

KNOX COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010

KNOX COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,443,000	\$ 1,443,000	\$ 1,624,129	\$ 181,129
Excess Fees	225,000	225,000	499,965	274,965
Licenses and Permits	135,000	135,000	136,203	1,203
Intergovernmental Revenue	267,000	267,000	589,223	322,223
Charges for Services	900	900	677	(223)
Miscellaneous	117,400	117,400	32,223	(85,177)
Interest	18,000	18,000	66,684	48,684
Total Revenues	<u>2,206,300</u>	<u>2,206,300</u>	<u>2,949,104</u>	<u>742,804</u>
EXPENDITURES				
General Government	1,271,800	1,680,800	1,630,952	49,848
Protection to Persons and Property	30,300	33,900	26,244	7,656
General Health and Sanitation	180,500	191,600	147,810	43,790
Social Services	2,000	3,500	1,400	2,100
Recreation and Culture	15,000	26,600	26,207	393
Debt Service	50,000	63,000		63,000
Administration	2,166,000	1,669,157	477,764	1,191,393
Total Expenditures	<u>3,715,600</u>	<u>3,668,557</u>	<u>2,310,377</u>	<u>1,358,180</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(1,509,300)</u>	<u>(1,462,257)</u>	<u>638,727</u>	<u>2,100,984</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			1,761,894	1,761,894
Transfers To Other Funds	<u>(595,419)</u>	<u>(595,419)</u>	<u>(1,794,950)</u>	<u>(1,199,531)</u>
Total Other Financing Sources (Uses)	<u>(595,419)</u>	<u>(595,419)</u>	<u>(33,056)</u>	<u>562,363</u>
Net Changes in Fund Balance	(2,104,719)	(2,057,676)	605,671	2,663,347
Fund Balance - Beginning	<u>2,104,719</u>	<u>2,273,175</u>	<u>2,273,523</u>	<u>348</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 215,499</u>	<u>\$ 2,879,194</u>	<u>\$ 2,663,695</u>

KNOX COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 878,796	\$ 878,796	\$ 1,577,556	\$ 698,760
Miscellaneous	10,000	10,000	178,179	168,179
Interest	6,000	6,000	19,130	13,130
Total Revenues	894,796	894,796	1,774,865	880,069
EXPENDITURES				
Roads	2,662,000	2,876,601	2,756,269	120,332
Debt Service			28,434	(28,434)
Administration	1,108,000	1,217,268	258,096	959,172
Total Expenditures	3,770,000	4,093,869	3,042,799	1,051,070
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(2,875,204)	(3,199,073)	(1,267,934)	1,931,139
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	2,412,419	2,412,419	800,000	(1,612,419)
Total Other Financing Sources (Uses)	2,412,419	2,412,419	800,000	(1,612,419)
Net Changes in Fund Balance	(462,785)	(786,654)	(467,934)	318,720
Fund Balance - Beginning	462,785	786,654	786,654	
Fund Balance - Ending	\$ 0	\$ 0	\$ 318,720	\$ 318,720

KNOX COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 116,000	\$ 116,000	\$ 194,172	\$ 78,172
Miscellaneous	23,000	23,000	38,435	15,435
Interest	1,000	1,000	2,572	1,572
Total Revenues	140,000	140,000	235,179	95,179
EXPENDITURES				
Protection to Persons and Property	1,140,000	1,423,450	1,350,386	73,064
Debt Service	37,000	37,400	37,312	88
Administration	904,200	662,487	222,609	439,878
Total Expenditures	2,081,200	2,123,337	1,610,307	513,030
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(1,941,200)	(1,983,337)	(1,375,128)	608,209
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	1,754,447	1,754,447	1,185,000	(569,447)
Total Other Financing Sources (Uses)	1,754,447	1,754,447	1,185,000	(569,447)
Net Changes in Fund Balance	(186,753)	(228,890)	(190,128)	38,762
Fund Balance - Beginning	186,753	228,890	275,458	46,568
Fund Balance - Ending	\$ 0	\$ 0	\$ 85,330	\$ 85,330

KNOX COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,390,000	\$ 1,390,000	\$ 881,955	\$ (508,045)
Miscellaneous			37	37
Interest	20,000	20,000	28,133	8,133
Total Revenues	<u>1,410,000</u>	<u>1,410,000</u>	<u>910,125</u>	<u>(499,875)</u>
EXPENDITURES				
General Health and Sanitation		3,300	3,250	50
Roads	95,000	162,000		162,000
Debt Service			161,672	(161,672)
Capital Projects	823,000	843,000	673,568	169,432
Administration		11,638		11,638
Total Expenditures	<u>918,000</u>	<u>1,019,938</u>	<u>838,490</u>	<u>181,448</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>492,000</u>	<u>390,062</u>	<u>71,635</u>	<u>(318,427)</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	<u>(1,625,191)</u>	<u>(1,625,191)</u>	<u>(250,000)</u>	<u>1,375,191</u>
Total Other Financing Sources (Uses)	<u>(1,625,191)</u>	<u>(1,625,191)</u>	<u>(250,000)</u>	<u>1,375,191</u>
Net Changes in Fund Balances	<u>(1,133,191)</u>	<u>(1,235,129)</u>	<u>(178,365)</u>	<u>1,056,764</u>
Fund Balances - Beginning	<u>1,133,191</u>	<u>1,235,129</u>	<u>1,191,343</u>	<u>(43,786)</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,012,978</u>	<u>\$ 1,012,978</u>

KNOX COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

OCCUPATIONAL LICENSE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 2,500,000	\$ 2,500,000	\$ 2,616,527	\$ 116,527
Interest	3,000	3,000	13,260	10,260
Total Revenues	2,503,000	2,503,000	2,629,787	126,787
EXPENDITURES				
General Government	763,000	823,808	822,387	1,421
Administration		47,800		47,800
Total Expenditures	763,000	871,608	822,387	49,221
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	1,740,000	1,631,392	1,807,400	176,008
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(2,063,192)	(2,063,192)	(1,778,983)	284,209
Total Other Financing Sources (Uses)	(2,063,192)	(2,063,192)	(1,778,983)	284,209
Net Changes in Fund Balances	(323,192)	(431,800)	28,417	460,217
Fund Balances - Beginning	323,192	231,800	231,800	
Fund Balances - Ending	\$ 0	\$ (200,000)	\$ 260,217	\$ 460,217

KNOX COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2010

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**KNOX COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2010

**KNOX COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2010

	Emergency 911 Fund	Federal Programs Fund	Knox County Hospital Sinking Fund	SEKRB Park Fund	County Attorney Drug Free Communities Fund	Total Non-Major Governmental Funds
ASSETS						
Cash and Cash Equivalents	\$ 87,481	\$ 76,003	\$ 296	\$ 119,032	\$ 96	\$ 282,908
Total Assets	<u>87,481</u>	<u>76,003</u>	<u>296</u>	<u>119,032</u>	<u>96</u>	<u>282,908</u>
FUND BALANCES						
Reserved for:						
Encumbrances	530					530
Unreserved:						
Special Revenue Funds	<u>86,951</u>	<u>76,003</u>	<u>296</u>	<u>119,032</u>	<u>96</u>	<u>282,378</u>
Total Fund Balances	<u>\$ 87,481</u>	<u>\$ 76,003</u>	<u>\$ 296</u>	<u>\$ 119,032</u>	<u>\$ 96</u>	<u>\$ 282,908</u>

The accompanying notes are an integral part of the financial statements.

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KNOX COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2010

KNOX COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2010

	Emergency 911 Fund	Federal Programs Fund	Knox County Hospital Sinking Fund	SEKRB Park Fund	
REVENUES					
Taxes	\$ 272,369	\$	\$	\$ 113,036	
Intergovernmental		2,622			
Miscellaneous	5,337				
Interest	2,356			1,828	
Total Revenues	<u>280,062</u>	<u>2,622</u>		<u>114,864</u>	
EXPENDITURES					
General Government				93,191	
Protection to Persons and Property	278,139				
Social Services					
Debt Service			60,030		
Administration	41,439		4		
Total Expenditures	<u>319,578</u>		<u>60,034</u>	<u>93,191</u>	
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(39,516)</u>	<u>2,622</u>	<u>(60,034)</u>	<u>21,673</u>	
Other Financing Sources (Uses)					
Transfers From Other Funds			59,950	19,892	
Transfers To Other Funds	(112)	(872)			
Total Other Financing Sources (Uses)	<u>(112)</u>	<u>(872)</u>	<u>59,950</u>	<u>19,892</u>	
Net Change in Fund Balances	(39,628)	1,750	(84)	41,565	
Fund Balances - Beginning (Restated)	127,109	74,253	380	77,467	
Fund Balances - Ending	<u>\$ 87,481</u>	<u>\$ 76,003</u>	<u>\$ 296</u>	<u>\$ 119,032</u>	

The accompanying notes are an integral part of the financial statements.

KNOX COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2010
(Continued)

County	Total
Attorney	Non-Major
Drug Free	Governmental
Communities	Funds
Fund	
\$	\$ 385,405
98,236	100,858
445	5,782
	4,184
<u>98,681</u>	<u>496,229</u>
	93,191
	278,139
89,703	89,703
	60,030
<u>13,814</u>	<u>55,257</u>
<u>103,517</u>	<u>576,320</u>
<u>(4,836)</u>	<u>(80,091)</u>
	79,842
	(984)
	<u>78,858</u>
(4,836)	(1,233)
<u>4,932</u>	<u>284,141</u>
<u>\$ 96</u>	<u>\$ 282,908</u>

The accompanying notes are an integral part of the financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable J.M Hall, Knox County Judge/Executive
Members of the Knox County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Knox County, Kentucky, as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated April 12, 2011. A qualified opinion was rendered on the governmental activities because the county excluded certain capital assets. Knox County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Knox County Fiscal Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Knox County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Knox County Fiscal Court's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as item 2010-03, 2010-04, and 2010-10 to be material weaknesses.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying comments and recommendations as items 2010-01, 2010-02, 2010-11, and 2010-15 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Knox County's financial statements as of and for the year ended June 30, 2010, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendation as items 2010-05, 2010-06, 2010-07, 2010-08, 2010-09, 2010-11, 2010-12, 2010-13, and 2010-14.

The Knox County Judge/Executive's and the County Jailer's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the County Judge/Executive and County Jailer's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the entity, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

April 12, 2011

**KNOX COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2010

**KNOX COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2010

FINANCIAL STATEMENT FINDINGS:

2010-01 Credit Card Expenditures Should Be Appropriately Validated And Properly Documented

Auditors chose ten (10) credit card statements to test for a total of \$8,962 charges. Of the \$8,962 credit card expenditures tested, \$520 lacked proper documentation to support the expenditure. Several expenditures were for travel, meals, or miscellaneous supplies.

We recommend the Fiscal Court strengthen controls of credit card usage and require documentation of who used the card and for what reason. Strong internal controls dictate there be procedures in place to reconcile monthly credit card receipts submitted by employees to the credit card statements. The following procedures should be implemented immediately to strengthen internal controls over credit card use:

- All receipts for credit card transactions should be attached to the statement and filed for preparation of the claims list.
- Once the statement is received and all receipts related to that statement are attached to the credit card statement, a detailed list of transactions should be included on the claims list presented to the Fiscal Court for approval.

County Judge/Executive's Response: We agree.

2010-02 The Fiscal Court Should Maintain Proper Records For The Public Properties Corporation Bond Fund And The Hospital General Obligation Refunding Bond Fund

Since the Fiscal Court is financially accountable and legally obligated for the debt of the Public Properties Corporation (PPC) and the Knox County Hospital Corporation (Hospital), these entities are reported as blended component units of the Fiscal Court. During our review of cash, we noted the Fiscal Court did not maintain ledgers for receipts and disbursements, did not prepare bank reconciliations, and did not prepare financial statements for fiscal year ended June 30, 2010 on the PPC's bond fund and the Hospital's General Obligation Refunding Bond Fund.

We recommend that the Fiscal Court prepare and maintain ledgers for receipts and disbursements of the PPC Bond Fund and the Hospital General Obligation Refunding Bond Fund. We also recommend that bank reconciliations be prepared monthly on all bank accounts. We further recommend the Fiscal Court or the boards of these entities prepare end of the year financial statements on the PPC Bond Fund and the Hospital General Obligation Refunding Bond Fund.

County Judge/Executive's Response: We do not receive or distribute any of the above funds, therefore we have no records to reconcile.

Auditor's Reply: The fiscal court should ensure that the ledgers are prepared and maintained, that bank reconciliations are made monthly, and that financial statements are prepared.

KNOX COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2010
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2010-03 The Fiscal Court Lacks Adequate Segregation Of Duties Over Payroll Processes

The Fiscal Court has a lack of segregation of duties over payroll processes. The Finance Officer performs the entire payroll function including, among other duties, preparing payroll records, preparing payroll checks, and posting payroll expenses. Payroll checks are signed by the Judge/Executive or Deputy Judge/Executive and the Treasurer. However, the checks are not agreed to the payroll ledgers by the check signers. No documented review or compensating controls exist over these areas.

Adequate segregation of duties would prevent the same person from having all the significant roles in the preparation of payroll. Lack of segregation of duties increases the Fiscal Court's risk of misappropriation of assets, errors, and inaccurate financial reporting. We recommend the Fiscal Court strengthen internal controls by segregating these duties. If segregation of duties is not possible, due to a limited number of staff, strong oversight should be implemented. The employee providing this oversight should document his or her review by initialing source documents.

County Judge/Executive's Response: We agree.

2010-04 The Knox County Jail Lacks Adequate Segregation Of Duties Over Accounting Functions

As a result of our audit, we noted a lack of segregation of duties exists over the following accounting functions: receipts and disbursements processes, record-keeping, report preparation, and reconciliations. Adequate segregation of duties would prevent the same person from having a significant role in these incompatible functions.

The Jailer's bookkeeper prepares and deposits the receipts, prepares and signs checks, posts to the ledger, prepares reports, and performs the bank reconciliations.

To adequately protect employees in the normal course of performing their assigned functions and to protect the Fiscal Court against inaccurate financial reporting, we recommend the Jailer separate the duties in preparing and depositing receipts, preparing and signing checks, recording transactions, preparing reports, and reconciling bank accounts. If any of these duties cannot be segregated due to a limited number of staff, strong oversight should be provided over the employee responsible. The employee providing the oversight should document this.

County Judge/Executive's Response: We agree.

Jailer's Response: I will implement these recommendations.

KNOX COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2010
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2010-05 The Fiscal Court Should Have Re-Bid The Knox County Corbin Annex Project In Order For All Qualified Contractors To Have An Equal Chance Of Procuring The Contract

The Fiscal Court advertised for bids on a design-build project for construction of a pre-engineered metal building to house satellite facilities for the Knox County Government. The building is to include a business office for general government, ambulance service office, and garage. After advertising for bids on the project but prior to receiving bid packages from the vendors, the Fiscal Court issued a memorandum to all bidders removing section 3 – parking/drives and section 10 – electrical, from the original bid package. In accordance with the bid specifications, the Fiscal Court decided to remove these sections and use their own resources to complete them.

After receiving the bids from the vendors, the County Judge/Executive was summoned to appear at the Kentucky Labor Cabinet's Division of Employment Standards, Apprenticeship and Mediation (DESAM) to produce all records related to the design-build project. The DESAM informed the Fiscal Court the public construction project would be subject to Kentucky's prevailing wage law. The bid specifications supplied to the bidders specifically stated prevailing wages were excluded from the project. Therefore, the bids received were based upon inaccurate information. Also, the costs of the county performing section 3 and section 10 would increase as a result of having to pay prevailing wages to county employees so the County Judge decided to include the sections previously omitted as part of the project.

The original low bid submitted was \$222,351; however, the original scope of the project changed significantly as a result of the above changes and the project should have been re-bid. Rather than re-bidding the project, the county added \$113,756 to each bid to cover the additional costs for the prevailing wages. They also added \$37,069, \$93,241, and \$34,419, respectively, to each bid for materials, parking/drives, building, and electrical, enabling the original vendor to still be awarded the bid for an adjusted bid of \$500,836 as determined by the deputy county judge/executive. There was no supporting documentation in the county's files for how these additional amounts were derived. This method of adjusting the original bids for the additions to cover prevailing wages is not accurate since it assumes all contractors bid the same number of labor hours and the same rate of pay for each employee proposed to work on the project. The unsuccessful bidders could have already been paying higher wages to their employees resulting in their higher original bids and they could have been more competitive if the project had been re-bid.

On April 20, 2009, the contractor with the original low bid submitted a letter to the deputy judge/executive which outlined the total cost including prevailing wages for each section of the bid request. The total projected cost of the project was \$497,784. The Fiscal Court approved the bid at \$461,821, which is \$35,963 less. This amount was paid directly to the contractor by the Kentucky Department for Transportation for the parking/drives.

KNOX COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2010
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2010-05 The Fiscal Court Should Have Re-Bid The Knox County Corbin Annex Project In Order For All Qualified Contractors To Have An Equal Chance Of Procuring The Contract (Continued)

We reviewed the project in accordance with the original bid package/specifications since it was not re-bid and found there was no documentation maintained by the county to document the county had monitored the project for compliance with the bid specifications. In addition, the county did not monitor the contractor for compliance with the Kentucky prevailing wages, even though this resulted in the scope of the project changing from the original scope. Further review of the bid specifications indicated that only one building manufacturer was pre-approved and any others must submit design criteria and request written approval from the county and must have twenty (20) years experience in the manufacture of pre-engineered metals buildings. Additionally, all contractors were required to have at least twenty (20) years experience in the business of building pre-engineered metal buildings of similar size and complexity.

We recommend the Fiscal Court properly advertise, or re-advertise when required, for bids for all construction projects exceeding \$20,000 in accordance with the county's procurement policy. The county should refrain from adjusting previously submitted bids and re-bid the projects in order for all qualified contractors to have an equal chance of receiving contracts. In addition, bid specifications should not be written in order to limit a qualified contractor or vendor from receiving a contract. The county should monitor all construction projects for compliance with specifications and should require contractors to present documentation of compliance with prevailing wages when it's a condition of the project.

County Judge/Executive's Response: Due to Dept. of Labor regulation on prevailing wages these changes were required.

2010-06 The Fiscal Court Should Adhere To Bids Awarded And Properly Advertise For Bids On All Projects Over \$20,000

On June 23, 2009, the Fiscal Court approved bids for the fiscal year ended June 30, 2010, one of which included hourly rental of equipment from a local business owned by a relative of the County Judge/Executive. During test of expenditures, we noted the invoices from this company did not include a breakdown of the total by hour for each piece of equipment. Therefore, auditors could not compare the amounts charged per the invoice to the approved bid price. Based on our review of these invoices we noted the following:

- A total of \$24,801 was used to purchased drainage tile and pipe; however, this vendor did not have the bid for fiscal year ended June 30, 2010. The amount charged was more than the bid amount awarded to another vendor and more than the original bid submitted by this vendor.
- Although the bid proposal was for hourly equipment rental, invoices included amounts charged for labor. The invoices were not detailed to show the total amount charged for labor.
- We also noted three road projects that exceeded \$20,000; however, these projects were not bid. Additional projects may have exceeded this threshold; however, invoices did not contain enough information to determine what projects they were for.

KNOX COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2010
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2010-06 The Fiscal Court Should Adhere To Bids Awarded And Properly Advertise For Bids On All Projects Over \$20,000 (Continued)

Subsequent to auditor request, the vendor provided a breakdown of each invoice which included a breakdown of equipment by hour, labor by hour, and any supplies purchased. The invoice numbers were handwritten and agreed to the original invoice numbers. During our review of these invoices we noted the following:

- Instances where the number of equipment hours multiplied by the rate per hour did not equal the amount invoiced. The amount invoiced was not evenly divisible by the hourly rate charged or any of the bid amounts.
- The amount per hour did not agree to the original bid price awarded.
- Charges for PC200 excavator, PC400 excavator, truck and trailer, grader, loader, and articulating truck which were not included in the original request for bids. A total of \$59,020 was expended for this equipment for the fiscal year ended June 30, 2010.
- Labor rates varied between \$40 per hour and \$45 per hour.

We recommend the Fiscal Court purchase materials from the vendor awarded the bid. In the event this vendor cannot be used, documentation from that vendor should be maintained to document the reason and an emergency order be issued if necessary. We further recommend the Fiscal Court advertise for all bids on projects that exceed \$20,000.

We also recommend the Fiscal Court require detailed invoices from the vendor to support statements. The Fiscal Court should compare the amounts billed by the vendor to the bid amount awarded and ensure the accuracy of the invoices.

County Judge/Executive's Response: Original bidders did not have required sizes or was not available when required.

2010-07 The Fiscal Court Should Either Deal Directly With The State Price Contract Vendor Or Advertise For Bids On Purchases That Exceed \$20,000

During fiscal year 2010, the Fiscal Court purchased five vehicles from two local dealerships without advertising for bids. The local vendors indicated the county was given the same price as the state price contract. In order to use a vendor for any purchase over \$20,000, without bidding the purchase, a county must have adopted the Model Procurement Code (KRS 45A.345-45A.460) with the option of:

1. Purchasing the vehicle from the state price contract vendor.
2. Advertising for bids to negotiate a lower price.
3. Negotiating directly with a vendor as long as the final price does not exceed the state price contract.

If the Fiscal Court has not adopted the Model Procurement Code, only the first two options apply.

Since the Fiscal Court has not adopted the Model Procurement Code, they should have bought the vehicle directly from the vendor who held the state price contract, or advertised for bids on the vehicle. We recommend the Fiscal Court deal directly with state price contract vendors or advertise for bids in accordance with KRS 424.260, if the Fiscal Court chooses not to adopt the Model Procurement Code.

KNOX COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2010
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2010-07 The Fiscal Court Should Either Deal Directly With The State Price Contract Vendor Or Advertise For Bids On Purchases That Exceed \$20,000 (Continued)

County Judge/Executive's Response: County saved \$3,175 on 5 vehicles. State bid price \$21,360 and paid \$20,995 from local tax paying dealer.

Auditor's Reply: The Fiscal Court should comply with the law and either (a) adopt the model procurement code or (b) make purchases from the state price contract vendor or advertise for bids.

2010-08 The Fiscal Court Should Properly Advertise For Bids On All Expenditures Over \$20,000

During our test of expenditures, we noted Fiscal Court expended \$74,285 on stone that was not included in the original request for bids. In addition, it was noted Fiscal Court KRS 424.260 states, "Except where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, may make a contract, lease, other agreement for material, supplies except perishable meat, fish, and vegetables, equipment, or for contractual services other than professional involving an expenditure of more than twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids." We recommend the Fiscal Court bid expenditures over \$20,000.

County Judge/Executive's Response: Local quarry ceased operations thereby causing purchasing of material from others due to delayed reopening causing the \$20,000 limit to be exceeded.

2010-09 The County Judge/Executive Should Obtain Fiscal Court Approval Before Approving Transactions

During test of capital assets, auditors noted two dump trucks on the county's insurance policy that were not on the capital asset listing. On June 2, 2008, the County Judge/Executive transferred the title for the two dump trucks to the county's name from a local business owned by a relative of the County Judge/Executive. The dump trucks were added to the county's insurance policy at a value of \$10,975 and \$8,550. Also, auditors noted a grader on the county's capital asset listing valued at \$164,000 that was located on the property of the business which originally owned the dump trucks. Auditors noted no funds were disbursed by the county for the dump trucks and no funds were received for the grader. The transfer of the dump trucks was not approved by Fiscal Court. During the August 24, 2010 Fiscal Court meeting, a citizen of the county inquired if the grader had been traded. The County Judge/Executive stated the trade had not taken place and would not without Fiscal Court approval. We recommend the County Judge/Executive obtain Fiscal Court approval before transferring vehicles in the county's name. We further recommend the Fiscal Court follow the county's administrative code for the disposal of county property.

County Judge/Executive's Response: Titles were transferred to obtain insurance on trucks during trial period until final action was taken. Grader value was incorrectly listed at \$164,000 which was appraised by caterpillar dealer at \$28,000. See appendix B.

KNOX COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2010
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2010-10 The Fiscal Court Should Maintain Complete And Accurate Capital Asset Schedules To Comply With GASB 34 Requirements And Inventory Capital Assets Periodically

The County did not have a completed capital asset schedule for fiscal year ended June 30, 2010. A list of capital asset additions, retirements and disposals were not properly maintained. The Knox County Hospital building and related property are not included on the capital asset listing because historical cost or estimated historical cost cannot be determined. Also, assets were retired or disposed of without proper descriptions therefore we were unable to identify these items for removal from the capital asset schedule.

A schedule of additions should be maintained as assets are purchased to simplify the process of updating the capital asset schedule. The schedule should include the date the asset is acquired, a description of the asset, the vendor name, and the amount. Invoices for asset acquisition and invoices for all other disbursements should be kept on file in a manner that allows retrieval of the original invoice for review and verification as needed by management and auditors. Furthermore, we believe the capital asset listing should be monitored and maintained on a regular basis. As new assets are acquired they should be added to the listing. As other assets are retired or disposed they should be removed from the listing.

During our review of internal controls, auditors noted physical inventory counts have not been performed. It appears the county has not placed sufficient emphasis on the importance of a regular capital assets physical inventory counts. Without regular capital asset physical inventory accounts, the county's capital assets inventories may obtain undetected errors. Also, the failure to tag capital assets increases the risk of inaccurate reporting. Many capital assets have similar descriptions, and often serial numbers are difficult to locate or read during routine inspections. Therefore, the lack of unique tags for asset identification increase the risk of over/under reporting like assets.

We recommend the County maintain complete and accurate capital assets schedules and records to comply with GASB 34 requirements. The Fiscal Court should take a physical inventory of its capital assets on a regular basis to ensure that only active, in-service machinery and equipment is included on the County's financial statements. We also recommend the County implement policies that will identify and track additions, retirements and disposed assets for the purpose of the capital asset schedule. These procedures will ensure that fixed assets are properly stated and that depreciation is being calculated accurately.

County Judge/Executive's Response: This is being corrected as required.

KNOX COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2010
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2010-11 The County Did Not Follow Proper Purchase And Procurement Procedures

During our test of expenditures, we noted the following deficiencies:

- Of the one-hundred sixty four (164) invoices selected for testing, thirteen (13) invoices were not paid within thirty (30) days.
- Expenditures from the road fund did not have signed delivery tickets to support the invoices.
- Three expenditures were not approved by Fiscal Court and one invoice did not agree to the amount approved by Fiscal Court.

KRS 65.140 requires any purchaser that receives goods or services to pay for those goods and services within thirty (30) working days of receipt of a vendor's invoice. Good internal controls dictate that adequate documentation be maintained to support all expenditures and signed delivery tickets be maintained to support the invoices. All original vendor invoices should be maintained including any supporting documentation which includes fuel receipts and road materials load or scale tickets.

Lack of proper accounting practices and internal control increase the risk that misstatements of financial activity and/or errors will occur and go undetected by the Fiscal Court. Without proper procedures in place to mitigate this risk, the Fiscal Court is exposing public resources to potential misstatements and/or errors. We recommend the Fiscal Court maintain all original vendor invoices including any supporting documentation, approve all expenditures by Fiscal Court, and pay all invoices within 30 days.

County Judge/Executive's Response: Our accounting practices are approved by DLG and payments outside of normal time restraints were not county controlled.

2010-12 The County Should Comply And Ensure That The Same Level Of Health Insurance Benefits Are Provided To All County Employees As Stated In Kentucky Attorney General Opinion (OAG) 94-15

During the testing of payroll, auditors noted that county employees are not receiving the same level of health insurance benefits. Elected officials and one appointed employee are receiving county-paid family coverage while others are paying for the extra cost for family coverage. During fiscal year ended June 30, 2010, the County paid as much as \$655 per month per employee for the additional costs of the family plan over the single plan. The County's Administrative Code states the County promotes equal opportunity in matters of compensation and benefits. It further states the County pays for an individual's health insurance policy but does not add that certain individuals will receive the family benefit as well. In September 2006, the County amended and approved an Administrative Code in which a provision was added that states, "The County pays the premium for all individual health insurance policies offered by the county; except, however, the county will pay the premium for family health insurance plans for all elected county officials, senior executives and department heads as may be negotiated in their compensation package."

In June 2007, the County amended and approved an Administrative Code in which the above provision still remains. OAG 94-15 states, "the basic statute providing for governmentally funded health coverage (KRS 79.080) for public employees does not provide for one level of coverage for officers, and another level for employees. Accordingly, we believe such differing coverage would not be lawful as not authorized by statute." We recommend the Fiscal Court follow the advice expressed in OAG 94-15 and ensure the same level of health insurance coverage for all employees.

KNOX COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2010
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2010-12 The County Should Comply And Ensure That The Same Level Of Health Insurance Benefits Are Provided To All County Employees As Stated In Kentucky Attorney General Opinion (OAG) 94-15
 (Continued)

County Judge/Executive's Response: According to our legal source the county employees are all equal and elected officials are equal.

Auditor's Reply: The Fiscal Court should follow the legal advice of the Attorney General in OAG 94-15 and provide the same level of health insurance for all county employees.

2010-13 The Fiscal Court Should Comply With Unemployment Laws And Regulations

During the test of payroll, auditors noted a letter in a road department employee's file dated July 6, 2009 signed by the County Judge/Executive. The letter was to inform the employee of a temporary layoff effective immediately due to the "down turn of economic conditions" and the "uncertain monetary restraints at this time". Subsequent to the date of the temporary layoff, auditors noted in the Fiscal Court orders that another employee was hired for the road department effective July 20, 2009, just 14 days after this road employee was put on temporary layoff. Also, per the Fiscal Court orders, county employees received raises during this time. Further investigation revealed this employee was temporarily laid off to care for an injured family member.

We also noted a notice of potential benefit charges from the Kentucky Division of Unemployment Insurance was filled out and signed by the finance officer and stated dates of employment from August 25, 2003 to April 7, 2009. The actual date of the claim was April 12, 2009. In addition to the unemployment insurance benefits received, this employee continued to receive health insurance paid by the county.

The impact of high unemployment claims can result in higher employer contribution rates in the future. We recommend the county ensure appropriate conditions exist before employees are laid off from work.

County Judge/Executive's Response: No response.

2010-14 The Fiscal Court Should Ensure Compliance With Emergency Management Program

The Emergency Management (EMA) Program is a program with 50% federal reimbursement of local funds to support local emergency preparedness activities. Knox County receives 50% reimbursement for the EMA Director's compensation and fuel expenses. The Knox County EMA Director is also employed by Whitley County 911 and resides in Whitley County. KRS 39B.020 (3)(b) states, "The local director shall be a resident of the Commonwealth of Kentucky and the county served."

On February 23, 2009, Kentucky Emergency Management (KyEM) performed a sub-recipient site monitoring in Knox County. In particular, KyEM questioned the January 14, 2010 payment to the Knox County EMA Program for reimbursement of expenses incurred in the 2nd, 3rd, and 4th quarter FY 09. The payment consisted of \$7,804 salary and \$1,619 for fuel.

Auditors compared the EMA Director's hours reported for Whitley County 911 and Knox County EMA from January 11, 2010 through January 24, 2010. Based on review of timesheets, Knox County requested reimbursement for hours the EMA Director was working in Whitley County as a 911 addressing coordinator.

KNOX COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2010
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2010-14 The Fiscal Court Should Ensure Compliance With Emergency Management Program (Continued)

The EMA Director drives his personal vehicle to perform duties as the Knox County EMA Director. Knox County issued him a fleet card for fuel purchases. The payment request from Knox County includes fuel reimbursement. However, there is no documentation to determine what are personal miles and business miles. In addition, KyEM disallowed \$691 in fuel receipts for reimbursement to the county because receipts submitted were not detailed or readable.

On September 27, 2010, the KyEM notified the Knox County Judge/Executive that reimbursement payment noted above would be disallowed due to lack of supporting documentation. KyEM directed the Knox County Fiscal Court to do one of the following options:

1. Repay the undocumented costs of \$9,423 to KyEM or
2. Place \$9,423 in an escrow account for EMA claims. After documented EMA claims are presented to KyEM in this amount, Knox County will be eligible for future reimbursement.

We recommend the Knox County Fiscal Court comply with one of these options. We also recommend the Fiscal Court ensure the EMA Director reside in Knox County in compliance with KRS 39B.020 (3)(b).

County Judge/Executive's Response: We agree and have notified E.M. in Frankfort.

2010-15 The Jailer Should Maintain Accurate Accounting Records And Prepare An Annual Report For The Jail Canteen Account

During the testing of the Jail Canteen Account, we noted the following deficiencies:

- Detailed disbursements ledgers were not maintained.
- Daily checkout sheets were not prepared and deposits were not made timely.
- Receipts and disbursements maintained in the computer system were not reconciled to the bank statements.
- The Jailer did not present a financial statement to the treasurer for fiscal year ended June 30, 2010.

The Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual outlines the following minimum accounting and reporting requirements pursuant to KRS 68.210:

- Daily Checkout Sheet and Daily Deposits
- Receipts Journal
- Disbursements Journal
- Jail Commissary Summary and Reconciliation

Also KRS 441.135 (2) states, "The Jailer...shall annually report to the county treasurer on the canteen account."

**KNOX COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2010
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2010-15 The Jailer Should Maintain Accurate Accounting Records And Prepare An Annual Report For The Jail Canteen Account (Continued)

We recommend the Jailer comply with the above requirements by preparing accurate daily checkout sheets, reconciling the daily checkout sheets to daily deposits and receipts ledger, reconciling receipts and disbursements in the computer system to the bank statements, and preparing a detailed disbursements ledger. We also recommend the Jailer present a detailed yearly financial statement to the county treasurer. This should include the beginning cash balance, summary of receipts and disbursements, and the reconciled year-end balance.

County Judge/Executive's Response: This has been corrected.

Jailer's Response: We are in the process of following these guidelines.

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**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

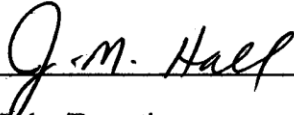
KNOX COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2010**

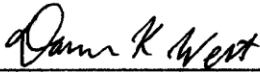
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
KNOX COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2010

The Knox County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



County Judge/Executive



County Treasurer

DOCUMENTATION OF ESTIMATED RESALE VALUE OF GRADER

Appendix B



WAYNE

CAT

WHAYNE SUPPLY COMPANY
2200 S. Kentucky Ave.
Corbin, KY 40701
Phone (808) 528-3140

Other locations:
Louisville, Ky.
Ashland, Ky.
Bowling Green, Ky.
Evansville, Ky.

Hazard, Ky.
Lexington, Ky.
Paducah, Ky.
Pikeville, Ky.

Att. Judge Hall
from. Jason Douglas

Resale and trade value of LG Groden.

Fax 546- 6196

**WHAYNE SUPPLIES
CONFIDENCE**



WHAYNE SUPPLY COMPANY
2200 S. Kentucky Ave.
Corbin, KY 40701
Phone (606) 528-3140



Other locations:
Louisville, Ky.
Ashland, Ky.
Bowling Green, Ky.
Evansville, Ky.

Hazard, Ky.
Lexington, Ky.
Paducah, Ky.
Pikeville, Ky.

To whom it may concern;

Wayne Supply Company has estimated a resale value for SN#61M13382 a Cat 12G to be \$28,000.00

The trade in value for this unit would be \$23,000.00.

Sincerely,

A handwritten signature in cursive script that reads "Jason Doughty".

Machinery Sales

